

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-05 CEA-01
L-03 H-02 DODE-00 PA-02 PRS-01 /101 W
-----098565 191816Z /46

R 191741Z DEC 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 4124
DEPARTMENT TREASURY
INFO AMEMBASSY PARIS
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY BERN
AMEMBASSY VIENNA
USMISSION USNATO

UNCLAS SECTION 01 OF 03 BONN 20942

USEEC, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FRB AND CEA

E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: GERMAN CENTRAL BANK COUNCIL RAISES
LOMBARD AND REDISCOUNT RATES, ALSO
INCREASES MINIMUM RESERVES FOR
FOREIGN DEPOSITS.

A. THE MEASURES:

1. AFTER A LENGTHY MEETING (A PRESS CONFERENCE HAD TO
BE POSTPONED THREE TIMES) ATTENDED BY MINISTERS APEL
AND LAMBSDORF, THE CENTRAL BANK COUNCIL TOOK THE
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FOLLOWING ACTIONS ON DECEMBER 15:

2. EFFECTIVE DECEMBER 16 THE REDISCOUNT RATE IS
REDUCED FROM 3 1/2 TO 3 PERCENT AND THE LOMBARD RATE
FROM 4 TO 3 1/2 PERCENT.

3. EFFECTIVE JANUARY 1, 1978, RESERVE RATIOS FOR THE

BANKS' FOREIGN LIABILITIES WILL BE INCREASED AS FOLLOWS:

	CURRENT	REVISED
	-----	-----
SIGHT DEPOSITS	12.75	20.0
TIME DEPOSITS	8.95	15.0
SAVING DEPOSITS	5.65	10.0

4. ALSO EFFECTIVE JANUARY 1 A "SPECIAL" 100 PERCENT RESERVE RATIO WILL BE APPLIED ON THE INCREASE IN THE BANKS' FOREIGN LIABILITIES OVER THEIR AVERAGE LEVEL PREVAILING DURING THE PERIOD SEPTEMBER 16 TO DECEMBER 15, 1977. (COMMENT: THE BUNDESBANK ANNOUNCEMENT IMPLIES THAT THE INCREASE OF FOREIGN DEPOSITS WOULD BE SUBJECT TO BOTH THE NEW 10-20 PERCENT RESERVE REQUIREMENT AND THE NEW 100 PERCENT RESERVE REQUIREMENT. A BUNDESBANK DESK OFFICER, HOWEVER, TELLS US THAT SINCE THE BUNDESBANK LAW DOES NOT PERMIT HIGHER THAN 100 PERCENT RESERVE REQUIREMENT, THIS WOULD NOT BE THE CASE. HE ADDED, HOWEVER, THAT THE BUNDESBANK DIRECTORATE HAS NOT YET GIVEN ANY OFFICIAL INTERPRETATION ON THE MEANING OF THE NEW REGULATION. THE PROBABLE MISDRAFTING OF THE CENTRAL BANK COUNCIL ANNOUNCEMENT SEEMS TO INDICATE THAT THIS WAS NOT ONE OF THE PROPOSALS SUBMITTED TO THE COUNCIL BY THE DIRECTORATE, BUT WAS ADDED IN THE UNCLASSIFIED

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COUNCIL ITSELF).

5. LICENSES FOR THE SALE TO FOREIGNERS OF DOMESTIC SECURITIES WITH REMAINING MATURITIES OF MORE THAN 2 YEARS AND UP TO 4 YEARS WILL NO LONGER BE GRANTED BY THE BUNDESBANK. CURRENTLY THE SALE TO FOREIGNERS OF SECURITIES CARRYING MATURITIES UP TO 4 YEARS IS STILL SUBJECT TO LICENSING. HOWEVER, SINCE SEPTEMBER 1975, THE BUNDESBANK HAS AUTOMATICALLY GRANTED SUCH LICENSES FOR SECURITIES OF 2-4 YEARS REMAINING MATURITY PROVIDED SECURITIES CONCERNED WERE NOT ISSUED BEFORE AUGUST 15, 1975. THUS, THE COUNCIL'S DECISION MEANS THAT THE BUNDESBANK NOW WILL NOT GENERALLY LICENSE THE ACQUISITION BY FOREIGNERS OF SECURITIES WITH BELOW 4 YEARS REMAINING MATURITY.

6. THE CENTRAL BANK COUNCIL ALSO DECIDED ON A MONETARY GROWTH TARGET FOR 1978. THE COUNCIL STATED THAT IN THE COURSE OF 1978 CENTRAL BANK MONEY (CBM) SHOULD EXPAND AT A RATE PROVIDING FOR AN AVERAGE 8 PERCENT (CBM) INCREASE IN 1978 OVER THE 1977 AVERAGE. ACCORDING TO THE BUNDESBANK THIS WOULD MEAN THAT, ASSUMING A STEADY

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GROWTH OF CBM IN THE COURSE OF 1978, IN THE FOURTH
QUARTER OF 1978 CBM WOULD BE 5-7 PERCENT HIGHER THAN
IN THE FOURTH QUARTER OF 1977.

7. THE BUNDESBANK STATED THAT IT BASED THE 8 PERCENT
GROWTH TARGET ON THE FOLLOWING ASSUMPTIONS:

A) IN 1978 THE PRODUCTION POTENTIAL OF THE
GERMAN ECONOMY WOULD INCREASE BY 3 PERCENT.

B) PRICE INCREASES IN 1978 "SHOULD AND CAN" BE
FURTHER REDUCED TO AN AVERAGE INCREASE OF
3 1/2 PERCENT OVER 1977 (WHICH WOULD MEAN A
3 PERCENT INCREASE IN THE COURSE OF 1978).

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C) SOME LEEWAY SHOULD BE PROVIDED FOR HIGHER
REAL GNP INCREASES.

B. THE PRESS CONFERENCE:

8. DURING A PRESS CONFERENCE FOLLOWING THE CENTRAL
BANK COUNCIL MEETING, PRESIDENT EMMINGER:

A) EMPHASIZED REPEATEDLY THAT THE RECENT HECTIC
MOVEMENT OF EXCHANGE RATES HAD ORIGINATED FROM
THE DOLLAR SIDE AND THAT WHILE "NATURALLY IT
WOULD BE IN THE FIRST PLACE A RESPONSIBILITY
(AUFGABE) FOR THE U.S. TO ASSUME THE STABILITY
OF ITS CURRENCY ... THE POSSIBILITIES FOR THE
U.S. TO PROVIDE RELIEF WITHIN A SHORT TIME ARE
LIMITED."

B) SAID THAT HE WANTED TO "CORRECT THE MISAPPREHEN-
SION THAT THE AMERICANS IN PRINCIPLE FOLLOWED
A POLICY OF BENIGN NEGLECT. THERE HAS BEEN
A DEVELOPMENT OVER THE LAST FEW MONTHS AND ONE
CAN SAY THAT LATELY THERE ALSO HAS BECOME
EVIDENT A CERTAIN (GEWISSE) CONCERN FROM THE
AMERICAN SIDE FOR THE MOVEMENT OF (THE EXCHANGE
RATE OF) THE DOLLAR. THIS HAS BECOME MOST
CLEARLY APPARENT WHEN THE DEPUTY SECRETARY OF
THE TREASURY, MR. SOLOMON, DECLARED A FEW DAYS
AGO THAT THE AMERICANS HAD NOW INTERVENED IN
A LARGER VOLUME TO AMELIORATE AND SMOOTH THE
HECTIC MOVEMENTS OF THE DOLLAR."

C) INDICATED THAT THE MOST WORRISOME PROBLEMS LAY
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IN THE SPEED OF THE EXCHANGE RATE MOVEMENT.
THIS CREATED UNCERTAINTY AND ADJUSTMENT PROBLEMS
FOR THE ECONOMY WHICH SOME SECTORS WERE NOT
ABLE TO MASTER WITHOUT MUCH ADO "AND WITH THIS
I MEAN NOT ONLY EXPORTERS, BUT ALSO THOSE
PARTS OF THE ECONOMY COMPETING WITH IMPORTS."

D) INDICATED THAT THE BUNDESBANK FEARED THE
DAMPENING EFFECT OF THE OVER-VALUATION OF THE
DM OR SOME SECTORS OF THE ECONOMY WHICH COULD
HAVE REPERCUSSIONS ON THE WHOLE ECONOMY JUST
WHEN "IT WAS ESPECIALLY IMPORTANT THAT THE FIRST

SIGNS FOR A RECOVERY SHOULD BECOME VISIBLE."
THE BUNDESBANK WANTED TO DO EVERYTHING POSSIBLE
SO THAT "THE STRONG DEPRESSIVE EFFECT OF THE
FORCED EXCHANGE RATE DEVELOPMENT SHOULD NOT
KILL IN THE BUD" A STRONGER ECONOMIC DEVELOPMENT
IN THE FRG.

E) THE BUNDESBANK HOPED THAT THE REDUCTION IN THE
REDISCOUNT AND LOMBARD RATES WOULD LEAD TO
EQUAL, OR EVEN SOMEWHAT LARGER, REDUCTIONS
ON ALL SHORT-TERM RATES. THE REDUCTION IN
INTEREST RATES WAS DESIRABLE TO HELP COUNTER
SOMEWHAT THE DEPRESSIVE EFFECT ON THE ECONOMY
FROM THE FOREIGN SIDE AND INDICATED NO REDUCTION
IN EFFORTS TO INSURE ECONOMIC STABILITY SINCE THE
EXCHANGE RATE MOVEMENT ALSO HAD A DEFLATIONARY
EFFECT. WHILE A HALF PERCENT INTEREST RATE
CHANGE COULD NOT COUNTER SPECULATIVE CAPITAL
MOVEMENTS, IT DOES AFFECT CAPITAL EXPORTS
AND HELPS IN MAINTAINING THE EC SNAKE. IN
THIS CONNECTION, EMMINGER STRESSED THE IMPORTANCE
THE BUNDESBANK ATTACHES TO THE MAINTENANCE OF
THE EC SNAKE.

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FM AMEMBASSY BONN
TO SECSTATE WASHDC 4126
DEPARTMENT TREASURY

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F) EMMINGER INDICATED THAT THE DM 10 BILLION INCREASE IN THE NET FOREIGN POSITION OF THE BUNDESBANK BETWEEN SEPTEMBER 30 - DECEMBER 14 APPROXIMATELY REPRESENTS GERMAN NET INTERVENTION ON THE FOREIGN EXCHANGE MARKETS -- INCLUDING SNAKE INTERVENTION.

G) EMMINGER ESTIMATED THAT THE INCREASE IN RESERVE REQUIREMENTS ON EXISTING FOREIGN DEPOSITS WILL AMOUNT TO APPROXIMATELY DM 1.3 BILLION.

H) EMMINGER PROJECTED THE 1977 GERMAN CURRENT ACCOUNT SURPLUS AT \$2.0 - 2.5 BILLION, I.E.,
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LESS THAN ONE QUARTER OF THE JAPANESE SURPLUS.

9. IN RESPONSE TO A QUESTION, FEDERAL MINISTER OF FINANCE APEL SAID IN THE SAME PRESS CONFERENCE THAT THE GOVERNMENT DOES NOT CONTEMPLATE OR CONSIDER ANY FURTHER IMPOSITION OF FOREIGN EXCHANGE CONTROLS TO SUPPLEMENT THE BUNDESBANK MEASURES.

C. REACTION TO BUNDESBANK MEASURES:

10. THE GOVERNMENT WELCOMED THE BUNDESBANK MEASURES, BUT THE PRIVATE BANKING COMMUNITY REACTED SKEPTICAL TO NEGATIVE. THE COOPERATIVE BANKS CONSIDERED THE MEASURES TO BE A WRONG DECISION WHICH WOULD NEITHER STIMULATE ECONOMIC ACTIVITY NOR HAVE ANY EFFECTS ON FOREIGN EXCHANGE MARKETS. THE SAVINGS BANKS ASSOCIATION FELT THAT THE MEASURES WOULD NOT STOP THE DOLLAR DECLINE BUT CREATE ADDITIONAL RISKS FOR THE DOMESTIC ECONOMY AND CREATE UNREST ON MONEY AND CAPITAL MARKETS. COMMENTS OF THE ASSOCIATION OF GERMAN (PRIVATE) BANKS WERE MODERATE. THE ASSOCIATION WAS UNCERTAIN ABOUT

THE EFFECTS OF THE REDISCOUNT RATE REDUCTION ON
INTEREST RATES SINCE IT WAS COMBINED WITH AN INCREASE
IN RESERVE RATIOS FOR FOREIGN LIABILITIES. THE
ASSOCIATION WARNED AGAINST FURTHER CAPITAL CONTROLS.

D. MARKET REACTION:

11. CONDITIONS ON THE GERMAN MONEY MARKET EASED IN
REACTION TO THE REDISCOUNT AND LOMBARD RATE DECLINE.
CALL MONEY WHICH HAD ALREADY DECLINED FROM ABOUT 4 PER-
CENT AT THE END OF LAST WEEK TO 3.60 - 3.75 PERCENT
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ON DECEMBER 15 DECLINED FURTHER TO 3.30 - 3.45 PERCENT,
I.E., TO A LEVEL SOMEWHAT BELOW THE NEW LOMBARD RATE.
ONE-MONTH AND THREE-MONTH MONEY FELL BY ALMOST THE
FULL HALF PERCENT DECLINE, ONE-MONTH MONEY FROM 4.25
PERCENT TO 3.85 PERCENT AND THREE-MONTH MONEY FROM
4.20 PERCENT TO 3.75 PERCENT. THE MARKET FOR DOMESTIC
BONDS GOT SOME STIMULUS FROM THE COUNCIL'S DECISION.
THE SLIGHT PRICE DECLINES PREVAILING DURING THE RECENT
WEEKS CAME TO A HALT AND PRICES INCREASED AGAIN
SLIGHTLY. ALSO THE MARKET FOR FOREIGN DM BONDS BECAME
MORE ACTIVE IN REACTION TO THE BUNDESBANK MEASURES.
ON THE FOREIGN EXCHANGE MARKETS THE DOLLAR DID NOT GAIN
FROM THE MEASURES. IT HAD INCREASED SUBSTANTIALLY FROM
DM 2.1227 ON DECEMBER 14 TO DM 2.1557 AT THE FIXING ON
DECEMBER 15, (I.E., BEFORE THE COUNCIL'S DECISION
BECAME KNOWN) BUT DECLINED THEREAFTER TO DM 2.1410
ON DECEMBER 16 AND FURTHER TO DM 2.1330 AT THE OPENING
ON DECEMBER 19.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CENTRAL BANK
Control Number: n/a
Copy: SINGLE
Sent Date: 19-Dec-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770472-0589
Format: TEL
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19771242/aaaabjgk.tel
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Litigation History:
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Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
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Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 191618
Secure: OPEN
Status: NATIVE
Subject: GERMAN CENTRAL BANK COUNCIL RAISES LOMBARD AND REDISCOUNT RATES, ALSO INCREASES MINIMUM RESERVES FOR
TAGS: EFIN, GE
To: STATE TRSY
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/a1260601-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009